



DEFENSE BUSINESS BOARD

Report to the Secretary of Defense

Review of the National Security Personnel System

Report FY09-06

- **Recommendations on Performance Management and the National Security Personnel System**

July 2009

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REVIEW OF THE NATIONAL SECURITY PERSONNEL SYSTEM

TASK

On March 16, 2009, the Department of Defense (DoD) and the Office of Personnel Management announced that they would undertake a review of the National Security Personnel System (NSPS). A copy of the announcement may be found at Appendix A. In preparation for the review, the Deputy Secretary of Defense met with labor representatives and other interested parties to hear their concerns about the NSPS.

On May 14, 2009, the Deputy Secretary of Defense, William J. Lynn III, asked the Defense Business Board to form a Task Group to review the NSPS. The Defense Business Board is an independent Federal Advisory Committee. As a subcommittee of the Board, the Task Group was created pursuant to the Federal Advisory Committee Act of 1972, the Government in the Sunshine Act of 1976, and other appropriate Federal regulations. A copy of the Deputy Secretary's terms of reference may be found at Appendix B.

The Deputy directed the Task Group to deliver recommendations aimed at helping the Department determine:

1. If the underlying design principles and methodology for implementation are reflected in the program objectives;
2. Whether the program objectives are being met; and
3. Whether NSPS is operating in a fair, transparent, and effective manner.

The Task Group was also asked to provide specific recommendations on policy and/or program changes.

Mr. Rudy deLeon chaired the Task Group. Other Task Group members were Mr. Robert Tobias and Mr. Michael Bayer. COL Kevin Doxey (USA) served as the Task Group's Secretariat Representative. A team of DoD NSPS and Human Resources professionals provided subject matter expertise to the Task Group.¹

¹ Members were Lona Barousse, Iona Evans, Philip Koren, Robertson Lao, Linda Logan, Daniel Robinett, Elizabeth Rodriguez, and Mary Rotchford

PROCESS

To conduct the review, the Task Group sought information from multiple sources to obtain a complete picture of the history, experience, and issues with NSPS. The Task Group's methodology consisted of gathering information by soliciting public comments through the Federal Register, interviewing the United Defense Workers Coalition, interviewing the DoD stakeholders (e.g., senior officials from the Army, Navy, Air Force, the Under Secretary of Defense for Intelligence, and others responsible for implementing NSPS), and convening two public meetings with experts and members of the public participating.

Additionally, the Task Group collected data from (1) the Program Executive Office (PEO) NSPS, including their 2008 NSPS Evaluation Report; (2) public comments solicited from June 9, 2009, through July 9, 2009; (3) interviews with the United Defense Workers Coalition held on June 12, 2009; (4) interviews with DoD stakeholders held on June 19, 2009; and (5) public meetings on June 25-26, 2009, with experts and members of the public. The Task Group reviewed over 900 written comments submitted during the public comment period. Two thirds of the submitted comments were from individuals currently in the NSPS system. Additionally, verbal comments were provided from ten individuals who attended the July 26, 2009, public meeting.

The Task Group also reviewed the legislative history of NSPS, background information on its implementation, and the various evaluations of NSPS that have been conducted by the Government Accountability Office (GAO) and other external parties.

The Task Group particularly noted the NSPS 2008 Evaluation Report, May 15, 2009, conducted by the PEO NSPS. This report analyzed data collected from the Defense Civilian Personnel Data System (DCPDS), site visits, and the DoD Status of Forces Survey for Civilians. The data reflects opinions and experiences at a point in time when approximately 100,000 employees were covered by NSPS and two payouts for the earliest adopters of NSPS had occurred.

The Task Group presented their findings and draft recommendations to a public meeting of the Defense Business Board on July 16, 2009, where, in compliance with the Federal Advisory Committee Act, the Board deliberated the findings and recommendations and approved the Task Group recommendations by unanimous vote. The briefing slides used during the public session are at Appendix C.

BACKGROUND

In 2003, Congress enacted the NSPS. The aim of the NSPS was to establish a more flexible, mission-based personnel management system that linked to DoD's mission and organizational goals. The 2003 legislation included a series of provisions on labor management that, while never implemented and later reversed by Congress in 2008, served to greatly damage the strong sense of partnership and commitment that had been established between labor and management in the 1990's.

Today, as the DoD faces an almost unprecedented tempo of operations, there is an urgent need to align the Department's resources to its priorities and to rebuild critical capabilities within the workforce. Successful performance management systems have the potential to enhance organizational performance and drive effective results. Flexible compensation and classification tools are required to support the recruitment and retention of high quality employees.

According to the PEO NSPS, only 10,000 employees have had three performance-based payouts under NSPS, and one-third of approximately 211,000 employees currently under NSPS have had one payout as of 2009.² Given the staggered implementation, the majority of employees in NSPS are in the first or second round of payouts. Reactions have been extremely divergent. Supporters of the new system extol the flexibility of the system, the performance-based criteria, and the effect of the system on overall performance. Critics argue that the system lacks transparency, fairness, and oversight. In all cases, the opinions have been very strong, rooted in personal perspective and experience, and offered with sincerity and conviction.

At the public meeting on June 25, 2009, Dr. John Crum of the United States Merit Systems Protection Board identified in his testimony the challenges involved and the many underlying requirements for a successful pay for performance system. He explained that success requires a substantial commitment of resources.³ Dr. Crum cautioned that:

² 2008 NSPS Evaluation Report, pp. ES-1 and 1-1.

³ "We've found that effective pay for performance systems have many prerequisites for success, and require a substantial commitment of resources, in terms of time, money, and effort. These keys to successful pay for performance relate to organizational culture, training, the supervisor's role, performance evaluation, fairness, funding, and evaluation. A supportive culture requires leadership commitment, open communication and system transparency, and employee trust of supervisors and leaders. Appropriate training must be provided for supervisors and employees. Supervisors must act in a manner that is, and is perceived to be, fair and effective. This fair treatment of employees involves not only the evaluation of performance and allocation of awards and pay increases, but also when assigning work and providing training because these actions heavily influence the opportunity to excel." Dr. Crum, Statement to the Task Group, June 25, 2009.

“pay for performance systems may need to evolve over time as part of a regular evaluation and modification process to ensure that they are fostering the achievement of organizational goals.”

Against this background, the Task Group offers the following recommendations and supporting analysis.

RECOMMENDATIONS

- 1. Initiate a reconstruction of the NSPS within DoD that begins with a challenge to the assumptions and design of NSPS. The Task Group recommends a “reconstruction” of the NSPS. A “fix” could not address the depth of the systemic problems discovered. The Task Group does not recommend an abolishment of the NSPS because the performance management system that has been created is achieving alignment of employee goals with organizational goals.⁴**

The reconstruction should include a true engagement of the workforce in designing needed changes and implementation. Finally, the reconstruction should include desired outcomes and data collection to measure results.

- 2. Reestablish a DoD commitment to partnership and collaborating with employees through their unions.**
- 3. Establish DoD’s commitment to strategic management and investment in career civil servants.**
- 4. Continue the existing moratorium on transitions of more work units into NSPS until DoD can present a corrective action plan to address identified issues, supported by data that the implemented corrective actions will address the identified issues.⁵**

⁴ The Task Group notes that NSPS as originally enacted has been narrowed by Congress. It is no longer a comprehensive “personnel system.” We believe a name change is needed to more accurately capture the scope of the effort.

⁵ The moratorium would include the Federal Wage System (commonly referred to as Wage Grade) statutory exception, the policy decision excluding bargaining unit employees from being converted into NSPS, and the March 2009 direction by the Deputy Secretary of Defense to halt further organizational conversions. It is noted that the Wage Grade (WG) is currently managed differently than the General Schedule (GS) or NSPS. Since WG is a market-based system, which conducts comprehensive market studies in the local area to determine pay rates, the Task Group believes WG employees should not be covered by NSPS.

5. In relation to NSPS, the following areas of identified concern must be addressed:

- a. Pay pool - The overall process lacks transparency and is encumbered by extremely complicated sub-processes.**
 - b. Pay Bands - The paybands have a wide impact and pay band 2 has a large component of the workforce without clear linkage to career progression.**
 - c. Trust - Supervisors and employees have built up reserves of trust on mission performance, but not on NSPS.**
 - d. Best Practices - The DoD Components have learned many best practices. These should be more formally collected and implemented across the Department.**
- 6. Continued GAO monitoring of NSPS implementation, with specific analysis of indicators of unintended Equal Employment Opportunity consequences in the NSPS workforce, would be beneficial.**
- 7. Create a collaborative process for DoD managers and employees currently in the General Schedule system to design and implement a performance management system that ties individual employee performance goals to organizational goals. Explore the replacement of the current General Schedule classification system.**

TASK GROUP RECOMMENDATIONS

1. Reconstruct NSPS.

NSPS at its inception was an ambitious and complex initiative. It has also been a lightning rod for intensely-held opinions about management of the Federal workforce and especially the role of collective bargaining and labor relations. The history of litigation and statutory changes with NSPS emphasizes the nature of these disputes. To a workforce facing one of the highest operating tempos in its history and a Department that is challenged to recover critical acquisition workforce capabilities, adding additional workload and change must be carefully crafted to minimize unintended consequences and unnecessary disruption. The workforce deserves a deliberative approach to change that clearly articulates the

expected results, identifies how those results will be measured, and ensures the impact to the individual employee is understood and fair. Equally important, the workforce must be fully engaged in its development and implementation of the system.

NSPS was one of several programs with the stated goals to provide more flexible and modern personnel management tools and implement performance management and pay for performance in the Federal sector. The drive for tools and processes that increase organizational performance and effectiveness and institutionalize a results-focused culture has not diminished. However, there are foundational issues that must be addressed for the program to be accepted by the workforce and to prove that the intended results are being achieved. These issues include better defining the path and criteria for success, making a commitment to empowering and expanding the leadership capacity of the supervisory workforce, addressing training, resolving resources challenges, and taking steps to remain focused on performance management. NSPS was implemented without the requisite supporting infrastructure. In essence, NSPS attempted to accomplish “too much, too fast.”

The Task Group recommends a “reconstruction” of the NSPS. A “fix” could not address the depth of the systemic problems discovered. Policy directive for the reconstruction of the civilian personnel system should be initiated by the senior leaders of DoD.

The current measures of success for the NSPS are tied to the Guiding Principles and Key Performance Parameters (KPPs) originally outlined in the Requirements Document for NSPS approved by the Deputy Secretary of Defense on September 25, 2004. In light of lessons learned and the evaluations and reviews that have been conducted on NSPS, it is important that the Department revisit the current KPPs and associated success measures.

Regardless of the extent of change to the original KPPs, more robust measures of success should be defined up front prior to implementing any reconstructive change. It is difficult to recognize success in any of DoD’s personnel management systems because, historically, effective benchmarks have not been identified and measured prior to implementing alternative personnel systems. It is vitally important for the Department to understand and articulate its ultimate goal. Specific, measurable standards must be in place to allow for more meaningful evaluation, establish system credibility and ultimately garner acceptance of the system. To date, this has not been effectively done, leaving questions as to

whether NSPS, or other alternative personnel systems, have actually improved organizational performance.

The implementation of NSPS was accompanied by an unprecedented initial training effort throughout DoD. However, training remains a key challenge for the Department as it relates to both technical execution, development of leadership capacity, and employee understanding and acceptance of any system. Sustainment training for any system is also vital and must be formally planned and implemented.

2. Reestablish Partnerships.

A 1999 report by the Defense Partnership Council⁶ found that improvements in organizational effectiveness that can result from partnerships include cost savings and cost avoidance, improved communication, workplace improvements, improved customer service, improved employee morale, and increased productivity. At a time when the pressures on effective and efficient use of taxpayer dollars are at a peak, the strength that comes from partnerships is urgently required.

Bargaining nationally with labor unions for an entire Federal department can prove to be a complicated process. However, there are examples of success at the national level to establish collaborative communication across numerous local unions. One example was raised in the Task Group's June 25, 2009, public meeting by the President of the American Federation of Government Employees (AFGE). He cited the use of a partnership council designed to cover the Air Force Materiel Command (AFMC). Through the AFMC partnership, they negotiated a Master Labor Agreement (MLA) covering all bargaining unit employees within AFMC. This MLA covers a wide variety of programs including performance management, time and attendance, staffing, etc. A similar agreement was also negotiated with the AFGE and the United States Marine Corps.⁷ DoD has already shown the ability to negotiate an alternate personnel system based on merit pay with labor unions.⁸ It is noted that during the early stages of planning, the steering committee set specific rules/goals in regards to labor management relations and how disagreements would be handled.

⁶ Report on the Examination of Partnership and Labor Relations in the Department of Defense, Defense Partnership Council, December 1999.

⁷ Labor Agreement Between The United States Marine Corps and the American Federation of Government Employees, dated 20 Dec 2002.

⁸ Naval Undersea Warfare Center Division Newport and Federal Union of Scientists and Engineers (NAGE R1-144) Personnel Demonstration Project Extension Agreement, 2003, dated June 13, 2003.

The Task Group recommends the Department establish labor-management partnerships at the senior level to work through issues vital to the success of the Department. Establishment of effective and meaningful partnerships has shown the ability to garner cooperation between management and labor unions. This has led to the ability to solve issues and promote programs within the scope of the partnership. Achieving the ultimate goal of a performance management system with proper compensation, hiring, and classification flexibilities for DoD is dependent on first establishing the trust and communications between the Department, affected union organizations, and employees.

3. Establish a DoD commitment to strategic management of career civil servants.

If the Department values rigorous performance management and a flexible compensation system, then it must fund the critical infrastructure that an effective human capital strategy and a results-oriented culture require. On April 22, 2009, GAO's Yvonne D. Jones testified before the House Subcommittee on Federal Workforce that "top leadership in agencies across the Federal government must provide committed and inspired attention needed to address human capital and related organizational transformation issues."⁹

The Department wanted to use its civilian workforce talent more effectively but it did not establish a center of excellence whose director would have a place at the resource discussions. Similarly, the Department did not systematically develop and encourage a supervisory cadre prior to NSPS. Robust performance management requires leaders who can translate an organization's vision into mission and outcome performance goals, and requires supervisors who can translate mission and outcome performance goals into performance objectives for their employees. As the Department undertakes performance management reconstruction, it should appoint an advocate for human capital to provide employees with institutional leadership development, supervisory training opportunities, and devote time to workforce skill acquisition.

The Department's training approach and commitment to developing military leaders is exemplary. It needs to provide a similar approach to its civilians. The civilian workforce requires an advocate for human capital. This official must have the ability to link and align mission and other Departmental criteria, i.e., business model(s) and/or business drivers, with effective human capital programs and

⁹ GAO, Human Capital: Sustained Attention to Strategic Human Capital Management Needed, April 22, 2009; GAO-09-632T.

policies, as well as a strong background in achieving labor-management consensus that results in improving mission attainment.

Performance management is more than simply coaxing productivity from employees. It is a commitment to the mission and to the men and women who work every day to advance that mission. By energizing performance management and focusing on a performance culture, the Department is asking its employees to commit to the work of providing military forces with what they need to deter war and to protect the security of our country. In return, the Department must make a commitment to the human capital portion of the DoD Strategic Plan. The Department must attract and retain key workforce talent and provide supervisors the time and the skills needed to engage with their employees in the day-to-day work of more effectively meeting the national security mission of the 21st century.

4. Continue the moratorium and implement immediate corrective actions for employees currently in NSPS.

The existing Departmental moratorium should continue until the reconstruction is completed. During the moratorium, the Department should continue to address the issues with NSPS implementation as described in this report. These efforts should be collected in a corrective action plan and implemented to reconstruct NSPS. The moratorium should not be lifted until DoD demonstrates that its goals have been reached based on the data it has collected.

A reconstruction of the depth and quality recommended in this report will take a significant amount of time and effort. During the moratorium and diagnostic period, NSPS employees will still be covered by a system that has been shown to engender considerable amounts of distrust among the workforce. Therefore, there are areas where immediate actions that are less drastic in nature will show the Department's commitment and its intent to its employees to move forward with reform. This report highlights areas where additional actions, separate from the reconstruction discussions, should be considered.

The reconstruction should be an endeavor separate and apart from the current NSPS program, as it will continue to exist during the reconstruction effort.

Under current statutes, Federal Wage System (FWS) employees are exempt from NSPS. Given their unique job skills, employees under this system may benefit from performance management alignment but pay pools and broad bands will not add value. Since FWS is a market-based system, which conducts comprehensive

market studies in the local area to determine pay rates, it already possesses desirable compensation elements. The system's goal is to ensure that Federal trade, craft, and laboring employees within a local wage area who perform the same duties receive the same rate of pay.

5. In relation to NSPS, need to address specific areas of identified concern.

a. Pay pool – The overall process lacks transparency and is encumbered by extremely complicated sub-processes.

- The role of the pay pool and its relationship to supervisory authority and communications has been a source of frustration to many employees and supervisors.*
- The process for funding the pay pools is complex and variable within organizations and components.*
- The payout process, including the formula for share value, the determination of individual employee shares, and the bonus versus salary allotment is complex and subject to misunderstanding and distrust by the employees.*

In the submitted written comments, the single most consistent point of complaint was with the pay pool process. NSPS uses the pay pool process as the management tool to link the achievement of performance goals with compensation.¹⁰ The process that links compensation to performance outcomes must be easily explained by supervisors and easily understood by employees. Employees need to believe that supervisors have confidence in the system, and supervisors must believe their recommendations are respected. Both supervisors and employees need to have the time that effective performance management requires.

Efforts that support supervisor and employee engagement are critical. According to the NSPS 2008 Evaluation Report, while the majority of NSPS supervisors reported that they had the tools and training to make pay decisions,¹¹ site visits found many supervisors were frustrated by the authority the pay pool had to change ratings and require the supervisor to accept those changes even if the

¹⁰ In January 2009, the Department completed performance-based payouts for employees working under NSPS. More than 1,600 pay pools allocated funds for approximately 170,000 employees.
<http://www.cpms.osd.mil/nsps/fs015.html>

¹¹ NSPS 2008 Evaluation Report, p 5-10.

supervisor disagreed.¹² This issue was a common theme in the comments received by the Task Group.

Many of the written comments received by the Task Group from the DoD workforce and data contained in the NSPS 2008 Evaluation Report reflected a strong relationship between first line supervisors and their employees. Supervisors expressed concern that pay pool members do not understand the work of the employees they are evaluating. Employees wrote sympathetically that their supervisors were spending many hours writing employee assessments. This mutual concern and respect is what allows the Department to achieve its goals. A performance management system that aligns employees' job objectives to the mission of the organization is valuable and should lead to greater employee and supervisor engagement and productivity. Instead, the pay pool process, which was designed to offer supervisors and employees consistency in treatment, has become a fulcrum for criticism and suspicion. When asked if "the pay pool panel helps ensure that the performance rating and payout process is equitable in my organization," nearly 40% of employees in Spiral 1 disagreed.¹³

Consistency in pay pool size, business rules, and funding levels would diminish the perception that different share outcomes are due to organizational differences and not to employees' performance. The NSPS implementation gives significant flexibility to the individual units under NSPS to establish the number, size, and composition of the pay pools and the funding available to the pay pools to distribute.¹⁴ These percentage amounts are then multiplied by the base salary of the employees within the pay pool to determine the cash available for payout.¹⁵ Thus, some pay pools have more funds to distribute than others, based on the local component decisions and the composition of the pay pool. These differences, coupled with the complexity of the funding process, lead to distrust and confusion by managers and employees.

This confusion is further exacerbated by the payout formula calculations. The actual payout that the individual employee receives is based on the number of shares assigned to that employee, the value of the shares for the pay pool that the employee is in, and the employee's base salary as of the end of the evaluation

¹² Ibid, p. 3-20.

¹³ Ibid, p. 4-36.

¹⁴ Pay pool funding includes (1) the funds historically spent for within grade increases, quality step increases, and promotions prior to NSPS transition, (2) up to 40% of the general pay increase as directed by the Secretary, (3) funds historically spent on annual cash bonuses, and (4) additional funds at the discretion of the component organization. 5 C.F.R. 9901.323(a)(1) and DoD Civilian Personnel Manual (CPM), DoD 1400.25-M, SC 1930.9.2.

¹⁵ DoD 1400.25-M, SC 1930.9.2.3.

cycle.¹⁶ The formula and the implementing issuances ensure that available funding is not less than it would have been had the positions not been converted to NSPS,¹⁷ but the complexity of the system creates the counter impression. Some commenters believe that ratings are lowered so that there will be sufficient funds and/or there is forced distribution of the ratings.

The performance management rating and rewarding process can be simplified to reduce the time burdens on senior leaders and return authority to the first- and second-line supervisors. Employee understanding and engagement in a performance management and compensation system are foundational to acceptance of the system and its credibility.

The negative perceptions of the pay pool process must be addressed by increasing efforts at improving transparency, increasing leadership and communications training, and creating performance management collaboration between employees and management. Key to transparency is simplicity. Simplifying the design, whether it is in pay pool size, funding levels, or business rules, will improve transparency. Voluntarily sharing recommended ratings will also improve the perceptions of transparency and accountability among employees as well as supervisors.

In December 2008, the PEO NSPS issued guidance to the components stating that employees have a legal entitlement to receive the recommended ratings from their first-level supervisors. However, this information is only required to be provided upon employee request. Since the entitlement is established, and in the interest of greater transparency, the Department could require these ratings be made readily available to employees after the final rating is communicated.

A major source of distrust of the pay pool process is linked to the possibility of supervisory ratings being changed by the pay pool manager. The PEO could collect and explore the possibility of publishing data on rating, share assignment, and payout distribution changes and the level where the changes occurred. Collection of this data provides an opportunity for senior leaders to identify those supervisors who may need further development of performance management skills.

The GAO recommended in its September 2008 report that pay pools publish overall results and statistics, a recommendation agreed to by the PEO and

¹⁶ 5 C.F.R. 9901.342 (c).

¹⁷ DoD 1400.25-M, SC1930.9.2.2.

subsequently inserted into the final regulations at 5 CFR 9901.342(g)(10). The Task Group applauds the Department in this action, which may be a valuable tool in increasing the transparency of the pay pool process. In addition, this requirement should receive ample attention from the PEO, to include careful monitoring and reporting requirements.

When calculating the pay pool funding, the Department should consider exercising its flexibility provided in law. Consistent with the authority granted by 5 CFR 9901.323(a)(1), the Secretary may grant the entire amount of the General Schedule annual adjustment under 5 U.S.C. 5303 to employees rated at level 2 and above, subject to associated legal requirements. Such action would simplify the calculation for pay pool funding and provide greater parity with the GS system. Receiving the full annual adjustment also provides employees a safety net while they are learning to adjust to a performance-based compensation system.

b. Pay bands have a wide impact. Pay Band 2, which has a large component of the workforce without clear linkage to career progression.

At its core, pay banding appeals to organizations such as DoD that need to be more responsive to the marketplace. It allows DoD to better engage in proactively and strategically managing its workforce in a fast-changing environment to ensure successful mission accomplishment. This contrasts with the GS system and its myriad staffing rules and policies that are based on narrow, vertical stovepiping along multiple occupational job series which restricts management's ability to quickly and strategically shape its workforce.

A main issue is the NSPS Pay Band 2 (PB2), since a large component of the workforce is located in this band.¹⁸ PB2 incorporates former non-supervisory GS grades 9 through 13 and GS 14 supervisory positions; each of the four NSPS career groups contains a PB2. The "collapsing" of six former GS grades into PB2 has caused a general concern that employees in PB2 no longer have clear linkages to career and pay progression. This issue has been accentuated due to the range spread, or width, both in terms of the "range of work" as well as the span from the minimum salary to the maximum salary of the band.

¹⁸ As of April 30, 2009, PB2 encompassed 68.5% of the NSPS workforce equaling 143,632 employees. Civilian Personnel Management Service (CPMS) Corporate Management Information System (CMIS), 4/30/2009.

Confusion about career progression has been created by mixing and combining the “journey” levels of many different occupational categories into one large band. NSPS management officials have mentioned that the wider PB2 enables managers to be more market-sensitive and better able to compete for talent.¹⁹ This flexibility is critical in recruiting and retaining high quality employees, especially for employees in mission critical, hard-to-fill occupations.²⁰ However, a lack of transparency in reassignment rather than competitive promotion opportunities leads to fears of cronyism and favoritism in supervisors and management. There are also concerns that the available 5% salary increase for reassignments may be both an insufficient amount to entice/reward an employee to accept a more difficult function (e.g., supervision) or in contrast, encourage “job hopping” for successive increases. In addition, the size of the pay band limits opportunities for traditional promotions and associated career progression and status.

Finally, concerns and frustrations are raised over the use of control points within pay bands, particularly in PB2. NSPS uses control points to allow organizations to manage pay progression for similar positions in a pay band. Control points limit pay rates and pay increases and slow movement through a pay band. By establishing a control point below the maximum for a pay band, managers can control the size of potential increases so that pay does not grow too fast or exceed the market value for the job. However, control points can place limits on an employees’ ability to reach the maximum salary level of the pay band. As documented in the written comments to the Task Group and expressed in the NSPS 2008 Evaluation Report, employees’ reaction to the use of control points highlights the challenge of increased pay expectations as employees are put in bands with potentially higher maximums than their previous GS grade maximums.

c. Supervisors and employees have built up reserves of trust on mission performance, but not on NSPS.

Supervisors comprise approximately one-third (32.8%) of the NSPS workforce.²¹ In addition to learning to apply the rules of NSPS for their employees, supervisors learned how those rules applied to them. Supervisors attended mandatory NSPS training at the time of conversion and were prepared with program basics.

¹⁹ June 19, 2009, DoD stakeholders meeting; June 26, 2009 public meeting; and comments received.

²⁰ There is reluctance by those responding to surveys to credit NSPS for any improvement in hiring or performance of new hires and continued concerns with ability to hire rapidly and in difficult to fill positions. NSPS 2008 Evaluation Report page 5-5.

²¹ CPMS CMIS dated 4/30/2009

However, there is evidence that they were unprepared to take on the added workload.

In addition to increasing the work required in managing employee performance through objective setting and evaluations, the shift to a pay for performance system created significant demands on supervisors to learn and implement responsibilities such as setting pay within a broad pay band and participating in Pay Pools. Because the business rules that prescribe these new concepts are not standardized within the Department (and often differ within organizations), conversion to NSPS was at best confusing and challenging.

Various factors led to supervisor dissatisfaction. First, some supervisors already supervised employees under more than one personnel system, each of which prescribes different rules and procedures. Implementing NSPS required supervisors to acquire an additional layer of competencies and differentiate between systems when exercising their personnel authorities. Second, the Performance Appraisal Application tool represents a significant departure from traditional performance appraisals in that because it is automated, it may be modified and electronically transmitted back and forth by multiple users at different times during the process. Although the tool has improved, there is still room for streamlining to be more efficient and transparent.

Execution of the performance appraisal portion of NSPS is concentrated in the months of October through December. Supervisors rate employees' performance, are on-call to explain ratings to pay pools, make changes to the final performance appraisal, and explain ratings to employees. They also develop and approve performance plans for the following cycle during this time. Additionally, since supervisors are also NSPS employees, they are likewise engaged in the performance appraisal process with their leadership. Written comments submitted to the Task Group revealed that supervisors felt that the concentration of these responsibilities with no relief from the normal "day-to-day workload" causes them hardship. A key to solving this problem is for the Department to promote the value of supervisory duties in the workplace. Supervisors must learn to alter the workload so that the necessary supervision as well as the day-to-day work activities are successfully accomplished.

Reviving supervisor-employee trust will undoubtedly take time. An aggressive training program tailored for specific skill development and increased leadership capacity will better prepare supervisors for their new role and a clearer understanding of the system and its processes will pave the road towards a more

credible system. Continued improvements in supervisor-employee performance-related dialogue will be required in any successful performance management program.

d. Best practices in the DoD Components should be more formally collected and implemented.

The DoD Components and Defense Agencies have developed best practices through trial and error. The PEO should formalize a means to collect and distribute best practices at the DoD level, and explore the possibility of more uniform implementation of those practices. The Task Group recognizes the fine work done by many organizations in their administration of NSPS, and believes that there already exist within the Department many practices that, if implemented on a broad scale, could contribute to increased acceptance and trust of the system during the diagnostic period.

The key to a successful performance management program is aligning organizational goals to the expectations for top leadership, and then cascading those goals down through the organization to the individual employees, thereby creating a clear line-of-sight.²² The end result should be that employees have a very clear understanding of what is expected of them, and how their results contribute directly to the success of the organization in meeting its strategic goals. Alignment also creates accountability by ensuring that employees are focusing on clearly defined expectations of what is necessary in order for them to effectively contribute to mission accomplishment. Robust performance management without mission alignment is insufficient.

One of the strengths of the NSPS program is the improved focus on mission alignment. NSPS has made significant progress linking individual performance goals to organizational goals, which is a foundation for performance management.²³ In focus groups and interviews, the workforce generally agreed that performance plans have helped improve the alignment of performance objectives with organizational strategic goals. The NSPS 2008 Evaluation Report found that over 90% of the sampled employee performance objectives were strongly aligned and very realistic.²⁴ While reconstruction must build upon this

²² GAO, Human Capital: Sustained Attention to Strategic Human Capital Management Needed, April 22, 2009, GAO-09-632T.

²³ GAO, Results Oriented Cultures: Creating a Clear Linkage Between Individual Performance and Organizational Success, March 2003, GAO-03-488

²⁴ NSPS 2008 Evaluation Report, p. 5-4.

progress, its value for the workforce currently in NSPS should be recognized and nurtured.

6. Need for vigilance on potential Equal Employment Opportunity (EEO) consequences.

At least as troubling as the complexity of the payout formula is the preliminary analysis of the payout data that indicates areas of potential concern for fairness and unintended consequences. DoD is still in the early stages of NSPS deployment. Only 10,000 employees have had three performance-based payouts under NSPS, and one-third of approximately 211,000 employees currently under NSPS have had one payout as of 2009;²⁵ nevertheless, vigilance is important.

Rating and payout analyses suggest that payouts are relatively higher for higher-paid employees.²⁶ Although the range of shares that can be assigned to a particular rating is limited, there is flexibility for the pay pools to make assignment of shares within particular rating ranges. Preliminary analysis by the NSPS 2008 Evaluation Report showed a pattern of higher shares being assigned to employees with higher salaries within the 3- and 4-rating ranges.²⁷ Similarly, use of contributing factors to increase a rating is higher for higher paid employees.²⁸ There also appears to be inconsistencies between Components on the number of shares awarded for the same rating.²⁹ Finally, the impact on race and gender of the trend that higher paid individuals tend to receive higher ratings requires more analysis and careful review.³⁰ The complexity of the pay pool process will make EEO analysis difficult, but the potential effects demand that it be done.

The PEO NSPS and Component NSPS program offices must work together to establish comprehensive measures using DCPDS data to determine if there is reason for concern or action. Some very preliminary reviews of the available data have highlighted some areas for additional examination. The PEO should also establish a plan for systematic and periodic review of the data and what actions should be taken in relationship to findings.

²⁵ Ibid, pp ES-1 and 1-1.

²⁶ Ibid, p. 5-9.

²⁷ Ibid, p. 2-16.

²⁸ Ibid, p. 2-18.

²⁹ Ibid, p. 2-6.

³⁰ Ibid, p. 2-23.

7. Need for Performance Management and Compensation Flexibility for bargaining unit employees

Over the course of this review, it became clear that the future of NSPS could not be evaluated without attention being paid to the fact that the system operates alongside the GS system. It is a generally accepted notion, in numerous reports as well as public comments, that running two major personnel systems, along with many smaller systems, is problematic on many levels. The Administration has also recently expressed interest to implement major reform to the GS system across the entire Federal workforce.³¹ In fact, the GS system falls short in many of the areas in which NSPS has made progress such as aligning individual performance to organizational goals, making meaningful distinctions between performance, and encouraging performance discussions between employees and their supervisors.

The Task Group believes, however, that because of the history of the methodology used to create and implement NSPS, and the ensuing litigation and its aftermath, the current NSPS system cannot successfully be extended to bargaining unit employees in DoD. DoD must create a process for the discussion and resolution of all issues related to the creation of a performance management system, hiring flexibilities, career progression, recognition of high performing individuals, pay for performance, changes in the hiring process and/or classification flexibilities that cover bargaining unit employees.

If the DoD decides to go forward to develop a system for bargaining unit employees, the Task Group believes it should be done in parallel with the recommended reconstruction of the NSPS system.³² This system for bargaining unit employees should recognize the requirement for the development of necessary infrastructure, including supervisory resources and measurable results. This system should also identify where there are gaps in the current GS classification system and provide for timely alignment of needed resources to emergent needs.

The first step in the process is to establish trust between management and bargaining unit employees and the unions that represent them through the

³¹ “Administration Will Push for Governmentwide Pay for Performance,” by Alyssa Rosenberg, Government Executive, May 27, 2009.

³² While the Task Group recognizes that this approach may lead to yet another personnel system, once the reconstruction and the separate system for bargaining unit employees is completed, the parties may discover and agree that it is possible to have one system that covers both bargaining unit and non-bargaining unit employees. If two rather than one system emerge, DoD will need to consider placing all employees who are eligible to be in bargaining units, but currently covered by NSPS, into the system created for bargaining unit employees.

recreation of partnership councils that are built on collaboration with final decisions based on consensus.

The next step, the Task Group believes, is to start with the GS system and to make changes to the GS system that will build upon the lessons learned from NSPS, starting with the performance management system. In addition, there needs to an exploration of the replacement of the current General Schedule classification system with a banding system that provides for flexibility in hiring, pre-determined times for evaluation and “with-in band” increases, and smaller bands that allow for promotion from one band to another as skills and experience increase.

The effort of identifying mission objectives and measurable goals and pushing those objectives and goals through the organization so that every employee understands his or her contribution to the mission objectives, coupled with frequent and effective dialogue between the supervisor and the employee on individual performance and overall mission accomplishment, is the foundation to performance management. When there is no measurable impact to the employee or the organization, when proper performance objectives are not set, when dialogue on performance and mission accomplishment does not occur, when individual performance is not evaluated; then there is no true performance management system.

Any performance management system, and subsequent recognition of high-performing employees, requires a commitment to measurable mission objectives and meaningful dialogue with the workforce on alignment of work to the objectives. There must be real consequences when these pre-requisites are not met.

Once a performance management system is actually in place, linkage of individual performance to pay (e.g., within band increases, awards) can be considered.

Clear metrics and goals should be set prior to initiation and rigorously tracked to establish the value of change and whether intended results are being achieved. Differences in actions that seek to enhance organizational performance and tools for attracting and retaining a robust and capable workforce should be well understood and appropriate metrics tracked.

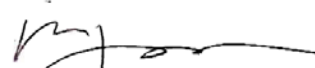
CONCLUSION

NSPS at its inception was an ambitious and complex initiative. It has also been a lightning rod for intensely held opinions about management of the Federal workforce and especially the role of the collective bargaining and labor relations. The men and women of the Department of Defense workforce deserve a performance management system that is built upon a deliberative approach that clearly articulates the expected level of performance, identifies how their performance will be measured, and ensures that the impact of their work is clearly understood and evaluated and fairly rewarded. The Defense Business Board presents these recommendations as foundational steps to help the Department build such a performance management system.

Respectfully submitted,



Mr. Rudy deLeon
Task Group Chairman



Mr. Michael Bayer
Task Group Member
Chairman, Defense Business Board



Mr. Robert Tobias
Task Group Member

Defense Business Board

APPENDIX A

(TASK GROUP FINAL REPORT– July 16, 2009)

Defense Business Board

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IMMEDIATE RELEASE

**No. 169-09
March 16, 2009**

DoD and OPM To Review National Security Personnel System

The Department of Defense and the Office of Personnel Management announced today that they will undertake a review of the National Security Personnel System.

The decision by Deputy Secretary of Defense William Lynn was made after consultation with the Office of Personnel Management. "This administration is committed to operating fair, transparent, and effective personnel systems, and we are undertaking this review to assess whether NSPS meets these objectives," said Lynn. With new leadership under a new administration, DoD and OPM will engage with key stakeholders in examining NSPS. "We recognize that varying viewpoints exist regarding NSPS, and given the scope and complexity of the system, it is important for leadership to conduct its own review of the program," Lynn added.

DoD will delay any further conversions of organizations into NSPS pending the outcome of this review. This affects roughly 2,000 employees in organizations scheduled to convert to NSPS this spring. Those organizations are adjusting their plans accordingly. During the review, organizations already covered by NSPS will continue to operate under current NSPS policies, regulations, and procedures.

DoD and OPM leadership are engaged in discussions with key personnel in the administration to determine the overall framework, scope, and timeline of the review, including identifying an appropriate individual to lead the review. It is expected to take several months for a review team to gather the necessary information and data, reach out to stakeholders, and develop recommendations for leadership consideration.

NSPS implementation began in 2006, changing the way DoD civilians are hired, compensated, promoted, and rewarded. The system currently covers approximately 205,000 DoD employees.

Defense Business Board

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Defense Business Board

APPENDIX B

(TASK GROUP FINAL REPORT– July 16, 2009)

Defense Business Board

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DEPUTY SECRETARY OF DEFENSE

1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

MAY 14 2009

MEMORANDUM FOR CHAIRMAN, DEFENSE BUSINESS BOARD

SUBJECT: Defense Business Board Review of the National Security Personnel System (NSPS)

Due to recent concerns raised by Congress and the U.S. Government Accountability Office regarding NSPS, I request the Defense Business Board, as an independent federal advisory committee, form a task group to review NSPS. Specifically, the task group should deliver recommendations aimed at helping the Department determine (1) if the underlying design principles and methodology for implementation are reflected in the program objectives; (2) whether the program objectives are being met; and (3) whether NSPS is operating in a fair, transparent, and effective manner. The review should also provide specific recommendations on policy and/or program changes.

Mr. Rudy deLeon, as a consultant to the Board for this effort, will serve as the Task Group Chair. The other members of the task group will be Mr. Michael Bayer and Mr. Robert Tobias. The Program Executive Office, NSPS, will provide technical assistance to the task group. The task group should plan its activities so as to present its findings and draft recommendations to the Board by late summer. The Board should provide its final report to the Secretary through the Deputy Secretary and to the Director, Office of Personnel Management, shortly thereafter. Colonel Kevin Doxey, USA, of the Board's staff, will serve as the Task Group's Secretariat Representative.



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Defense Business Board

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Defense Business Board

APPENDIX C

(TASK GROUP FINAL REPORT– July 16, 2009)

Defense Business Board

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DEFENSE BUSINESS BOARD



National Security Personnel System Task Group Review

Mr. Rudy deLeon, Task Group Chair

July 16, 2009

Task Group Overview

TASK: Review NSPS to help the Department determine: (1) if the underlying design principles and methodology for implementation are reflected in the NSPS program objectives; (2) whether the program objectives are being met; and (3) whether NSPS is operating in a fair, transparent, and effective manner.

TASK GROUP: Mr. Rudy deLeon (Chair), Robert Tobias, Michael Bayer

MILITARY ASSISTANT

COL Kevin Doxey, USA

Methodology

- Background data collected from PEO NSPS and other Federal sources, including the 2008 NSPS Evaluation Report
- Public comments solicited from June 9th through July 9th
- Interviews with United Defense Workers Coalition, June 12th
- Interviews with DOD stakeholders, June 19th
- Public meetings with experts and members of public, June 25th and 26th

Background

- One expert representing the Merit Systems Protection Board stated:
 - Effective pay for performance systems have many prerequisites for success, and require a substantial commitment of resources, in terms of time, money and effort.
 - A supportive culture requires leadership commitment, open communication and system transparency, and employee trust of supervisors and leaders.
 - Pay for performance systems may need to evolve over time as part of a regular evaluation and modification process to ensure that they are fostering the achievement of organizational goals

Findings

- Pay Pool Process
 - Is complex and lacks transparency
 - Payout formulas for share value and salary/bonus split are confusing
- Pay Bands
 - Pay Band 2 is very broad
 - Reassignments within pay bands
 - Limited promotion opportunities
- First Line Supervisor
 - Supervisors and employees have built up reserves of trust on working together to accomplish the DOD mission, but the current implementation of NSPS does not have the same level of trust between supervisors and employees

NSPS RECOMMENDATIONS

- Initiate a reconstruction of the NSPS
- Continue existing moratorium on transitions of more work units into NSPS until DOD can present a corrective action plan to address identified issues, supported by data that the implemented corrective actions will address the identified issues
 - Continue statutory exclusion of Federal Wage employees
 - It is noted that the Wage Grade is currently managed differently than the General Schedule (GS) or NSPS. Since Wage Grade is a market-based system, which conducts comprehensive market studies in the local area to determine pay rates, it may already possess desirable compensation elements
 - Continue excluding bargaining unit GS employees from being converted
- Reestablishing DOD commitment to collaborating with employees and manager associations

GS RECOMMENDATIONS

- Create a collaborative process for DOD managers and employees to design and implement a pay for performance system
- Explore the replacement of the current General Schedule classification system
- Reestablish a DOD commitment to collaborating with employees through their unions
- Establish DOD commitment to strategic management and investment in career civil servants

DEFENSE BUSINESS BOARD



Questions?

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